August 21, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update –
Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a proposal of the Private Company Council)

(File Reference No. PCC-13-01B)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Robert M. Rollmann, Chair of the Financial Accounting Standards Committee at (914) 421-5605, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A

J. Michael Kirkland
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE –
INTANGIBLES—GOODWILL AND OTHER (TOPIC 350): ACCOUNTING FOR GOODWILL (A PROPOSAL OF THE PRIVATE COMPANY COUNCIL)

(FILE REFERENCE NO. PCC-13-01B)

August 21, 2013

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New York State Society of Certified Public Accountants

Comments on
Proposed Accounting Standards Update –
Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (a proposal of the Private Company Council)

(File Reference No. PCC-13-01B)

General Comments

We are pleased to respond to the FASB's invitation to comment on proposed Accounting Standards Update (the "Update") – *Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill, a proposal of the Private Company Council.*

We are pleased to see that the Private Company Council ("PCC") is making progress in reducing the complexity, cost, and time necessary for private companies to comply with accounting principles. We are generally supportive of the proposed Update, although we do have comments on certain of the specific issues identified by the PCC. We believe that the alternative accounting option in the Update represents an improved method of accounting for goodwill at private companies, and suggest that the use of the accounting alternative be available to other entities (see our comments to Question 3 below).

As a result of the interrelationship between the subject matter of this proposed Update and that of the proposed Update – *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination, a proposal of the Private Company Council ("Intangibles Update"),* we suggest that the FASB approve this Update at the same time that the Intangibles Update is approved. While approval in "tandem" might be considered unusual for the FASB, we believe that this approach would be consistent with the concept suggested in Question 17 below regarding adoption by private companies. It is the combination of the ***two sets*** of guidance that will result in financial statements that are more meaningful to users while reducing the complexity and cost to private company financial statement preparers.

Specific Comments

We have the following responses and suggestions for the FASB's consideration to questions posed in the Update:

Question 1: Please describe the entity or individual responding to this request. For example:

Please indicate whether you primarily are a preparer, user, or public accountant. If other, please specify.

a. If you are a preparer of financial statements, please indicate whether your entity is privately held or publicly held and describe your primary business and its size (in terms of annual revenue, the number of employees, or other relevant metric).

b. If you are a public accountant, please describe the size of your firm (in terms of number of partners or other relevant metric) and indicate whether your practice focuses primarily on public entities, private entities, or both.
c. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.
d. If you are a user of financial statements, please indicate in what capacity (for example, lender, investor, analyst, or rating agency) and whether you primarily use financial statements of private entities or those of both private entities and public entities.

Response: We are the New York State Society of Certified Public Accountants, representing more than 29,000 CPAs in public practice, industry, government, and education. We represent our entire membership some of whom are auditors, users, and preparers of financial statements of both publicly and privately held companies.

Question 2: Should any types of entities in the proposed scope be excluded? Should any types of transactions or accounts be excluded, or are there any other types of transactions or accounts that should be included in the scope?

Response: We agree with the types of entities and transactions included in the proposed scope.

Question 3: Should the Board consider expanding the scope of the accounting alternative to other entities, such as publicly traded companies or not-for-profit entities? If the scope is expanded to other entities, what changes, if any, should the Board consider to the accounting alternative for the subsequent measurement of goodwill? If the scope is expanded to public companies or not-for-profit entities, should the accounting alternative continue to be elective?

Response: We believe that not-for-profit entities ("NPO") should be included within the scope of the Update. In our experience, NPOs that qualify for capitalization of goodwill (*i.e.*, those that do not derive the majority of their revenue and support from contributions and investment income) can have significant amounts of goodwill. Further, the amount of goodwill that they have is magnified by the limitation on intangible assets that qualify for fair value accounting as proposed in the Intangibles Update. To exclude NPOs from the scope of this Update will only serve to continue to add complexity and cost for NPOs required to comply with periodic impairment testing.

We also believe that certain conduit bond obligors should be included within the scope of the Update (see our answer to question 18). In our experience, many smaller for-profit and NPO entities, such as nursing homes, independent schools and acute care clinics, are parties to conduit bonds (*i.e.*, issued by entities such as Dormitory Authority of the State of New York and State Educational facilities) which, while tradable, are frequently held by a limited number of institutional and sophisticated investors. This also applies to some private businesses funded with Industrial Development Authority bonds. We seriously question the cost/benefit analysis of excluding such conduit bond obligors from the Update. Further, we believe that a conduit bond obligor is most interested in available cash flows to service the debt and not with the amount of goodwill that remains on the balance sheet.

Finally, if the FASB is willing to consider the possibility of expanding the scope of the accounting alternative to publicly traded companies, we would be supportive of that consideration as well. We anticipate that most privately held companies would adopt the accounting alternative for goodwill and having that alternative available for publicly traded companies would allow companies a smoother transition during the initial public offering process.

Question 4: Would the proposed amendments reduce overall costs and complexity compared with existing guidance? If not, please explain why.

Response: Yes, we believe that the proposed guidance will reduce overall costs and complexity compared to existing guidance.

Question 5: Do you agree that the accounting alternative for goodwill would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide relevant information to users?

Response: Yes, we agree that the accounting alternative for goodwill will provide relevant and decision-useful information to users of private company financial statements.

Question 6: Do you agree with the PCC's decision to amortize goodwill on a straight-line basis over the life of the primary asset acquired in a business combination, not to exceed 10 years? If not, please tell us what alternative approach or useful life you would prefer?

Response: Yes, we agree with the proposed amortization methodology. While no amortization method or period is perfect, we believe that the method proposed is practical, cost-effective, and systematic. In our experience, private company financial statement preparers and users are not heavily focused on the carrying value and long-term nature of goodwill. In addition, in our experience, most users of private company financial statements have little if any concern for intangibles amortization expense, often "adding it back" to net or pre-tax income to arrive at the income figure about which they are most concerned. Furthermore, if a company followed the guidance in the Intangibles Update, it could conceivably increase the amount of goodwill it recorded in lieu of certain intangible assets that no longer qualified for recording. Consequently, goodwill could be significantly higher than it otherwise would be if not for the suggested amortization.

We suggest the use of a maximum of 15 year life rather than 10. This is reasonable if the primary asset either goodwill as, currently defined, or another asset with either an indefinite life estimated life of at least that length. When GAAP included the amortization of goodwill, a life of 20 years was commonly used and 40 years was used in some cases. Use of 15 years would correspond with the amortization life that is used for United States income tax purposes so would reduce costs for entities recording goodwill for both income tax and financial reporting purposes. This cost reduction would result both from not having two amortization tables but also from dealing with the related issues of deferred taxes and reporting financial statement to income tax differences in the tax filings. These annual costs would be small for each entity but across tens of thousands of entities it could be significant.

Question 7: Do you agree that goodwill accounted for under this alternative should be tested for impairment at the entity-wide level? If not, should an entity be either required or given an option to test goodwill at the reporting unit level? What issues, if any, arise from amortizing goodwill at the individual acquired goodwill level while testing for goodwill impairment at the entity-wide level?

Response: In general, we agree that goodwill should be tested at the entity level; however, we believe that an impairment option should exist to test goodwill for impairment at the reporting unit level if that alternative is consistent with the structure of the privately held company. While private companies typically have limited reporting units, we believe that companies that have grown through acquisition frequently have more than one reporting unit (even in the private sector). Consequently, we believe that an option should exist to allow measurement of goodwill at the reporting entity level while still applying the accounting alternative for goodwill proposed in this Update. Nevertheless, we believe that this option should require that an entity selecting the reporting level option should be required to calculate the impairment under both methodologies and record the higher result as the impairment (assuming that this recommendation is accepted).

Question 8: Do you agree that goodwill accounted for under this alternative should be tested for impairment only upon the occurrence of a triggering event that would indicate that the fair value of the entity may be below its carrying amount? If not, when should goodwill be tested for impairment? Should there be an annual requirement to test goodwill?

Response: Yes, we agree that goodwill should only be tested for impairment upon the occurrence of a triggering event. Furthermore, we support the FASB's guidance that when other assets are tested for impairment at the same time goodwill is to be tested for impairment, the other asset test for impairment should be tested before the goodwill is tested for impairment.

Question 9: In the proposed amendments, an entity would consider the same examples of events and circumstances for the assessment of triggering events as those considered for the qualitative assessment. However, the PCC intends the nature and extent of those two assessments to be different. The assessment of triggering events would be similar to the current practice of how an entity evaluates goodwill impairment between annual tests. In contrast, the optional qualitative assessment would be part of an entity's goodwill impairment test, requiring a positive assertion, consistent with current practice, about its conclusion reached and the events and circumstances taken into consideration. Should the assessment of triggering events be performed consistently with how entities currently assess for goodwill impairment between annual tests? If not, how should an entity assess for triggering events? Do you agree that there should be a difference in how an entity would perform its assessment of triggering events and how it would perform the qualitative assessment?

Response: Yes, we agree with the proposed assessment process.

Question 10: Do you agree with the alternative one-step method of calculating goodwill impairment loss as the excess of the carrying amount of the entity over its fair value? Why or why not?

Response: Yes, we agree with the alternative one-step method of calculating goodwill impairment loss.

Question 11: Do you agree with the disclosure requirements of the proposed Update, which largely are consistent with the current disclosure requirements in Topic 350? Do you agree that an entity within the scope of the proposed amendments should provide a roll forward schedule of the aggregate goodwill amount between periods? If not, what disclosures should be required or not required, and please explain why.

Response: Yes, we agree with the disclosure requirements of the Update; however, we do not believe that a tabular goodwill roll-forward schedule should be mandated. Rather, we believe financial statement preparers should have flexibility in how roll-forward information is disclosed. Requiring a roll-forward schedule introduces unnecessary costs and complexity for financial statement preparers possibly negating some of the improvements sought in this Update.

Question 12: Do you agree that the proposed Update should be applied on a prospective basis for all existing goodwill and for all new goodwill generated in business combinations after the effective date? Should retrospective application be permitted?

Response: Yes, we agree with the prospective application of this Update; however, we believe that retrospective application should be permitted in those instances in which comparative financial statements are presented.

Question 13: Do you agree that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over its remaining useful life not to exceed 10 years (as determined on the basis of the useful life of the primary asset of the reporting unit to which goodwill is assigned) or 10 years if the remaining useful life cannot be reliably estimated? Why or why not?

Response: In many privately held companies, we believe that the estimated useful life of the primary asset (defined as a long-lived cash flow generating asset) will be observable. However, we believe that in instances in which it is not, the entity should be provided with the flexibility to select an entity-appropriate amortization period of, for example, five to ten years or to 15 years if the suggestion in our response to question 6 is adopted. It is important to note that in certain private companies (such as professional service companies, service companies, retail enterprises, and transportation/delivery companies), the concept of a “primary asset” does not exist and an across-the-board ten-year (or 15 year) amortization period seems inappropriate.

Question 14: When should the alternative accounting method be effective? Should early application be permitted?

Response: We believe that the alternative accounting method should be effective for years ending on or after December 15, 2014, with early application permitted.

Question 15: For preparers and auditors, how much effort would be needed to implement and audit the proposed amendments?

Response: Implementation effort will vary by entity; however, we do not believe that it will be significant.

Question 16: For users, would the proposed amendments result in less relevant information in your analyses of private companies?

Response: No, we do not believe that the proposed amendments would result in less relevant information to users of private company financial statements. As noted in our response to question 6, we do not believe that such users are heavily focused on the value of goodwill and usually would not be concerned with the amount of goodwill amortization expense.

Question 17: If an entity elects the accounting alternative in the amendments in this proposed Update, do you think that entity also should be required to apply the PCC's proposed accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination (in Topic 805)? Alternatively, if an entity elects the accounting alternative in Topic 805, should that entity also be required to adopt the proposed accounting alternative? (No decisions have been reached by the Board and the PCC about this question.)

Response: Yes, as discussed in question 3, we believe that entities electing this accounting alternative should be required to adopt the accounting alternative for Intangible Assets as well.

Question 18: The scope of this proposed Update uses the term **publicly traded company** from an existing definition in the Master Glossary. In a separate project about the definition of a nonpublic entity, the Board is deliberating which types of business entities would be considered public and would not be included within the scope of the Private Company Decision-Making Framework. The Board and PCC expect that the final definition of a **public business entity** resulting from that project would be added to the Master Glossary and would amend the scope of this proposed Update. The Board has tentatively decided that a public business entity would be defined as a business entity meeting any one of the following criteria:

a. It is required to file or furnish financial statements with the Securities and Exchange Commission.
b. It is required to file or furnish financial statements with a regulatory agency in preparation for the sale of securities or for purposes of issuing securities.
c. It has issued (or is a conduit bond obligor) for unrestricted securities that can be traded on an exchange or an over-the-counter market.
d. Its securities are unrestricted, and it is required to provide U.S. GAAP financial statements to be made publicly available on a periodic basis pursuant to a legal or regulatory requirement.

Do you agree with the Board's tentative decisions reached about the definition of a public business entity? If not, please explain why.

Response: We believe that the Board's tentative definition of a public business is appropriate; however, as discussed in our answer to Question 3, we believe that the Board should reconsider inclusion of NPO conduit bond obligors in such definition. We also believe the Board should reconsider part (a) of the tentative definition which would include a non-issuer introducing broker dealer qualifying for the exemption from Securities Exchange Act Rule 15c3-3 that files with the SEC both a statement of financial condition and a complete set of financial statements – the statement of financial condition is made publicly available while the financial statements are confidential and not available to the public. Users of the non-issuer introducing broker dealer statement of financial condition would likely not be concerned with how much goodwill was depicted. Leaving non-issuer introducing broker dealers out of the definition of "public business entity" would still allow the Board to make certain standards applicable to both "public business entities" and to non-issuer introducing broker dealers if it chose to do so. We also believe the Board's tentative definition of public business should address whether to include or exclude those entities whose securities are traded on websites (as opposed to formal exchanges), such as those under the JOBS Act.